INTRODUCTORY SECTION

STATE OF COLORADO

GENERAL SUPPORT SERVICES
DIVISION OF FINANCE AND PROCUREMENT
OFFICE OF THE STATE CONTROLLER

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October 17, 2000

To the Citizens, Governor, and Legislators of the State of Colorado

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the State of Colorado for the fiscal year ended June 30, 2000. This report is prepared by the Office of the State Controller and is submitted as required by Colorado Revised Statutes 24-30-204. The state controller is responsible for managing the finances and financial affairs of the state and is committed to sound financial management and governmental accountability.

We believe the financial statements are fairly presented in all material aspects. They are presented in a manner designed to set forth the financial position, results of operations, and changes in fund balances of the various fund types. All required disclosures have been included to assist the members of the General Assembly, the financial community, and the public in understanding the state's financial affairs.

The financial statements contained in the CAFR are prepared in conformity with generally accepted accounting principles applicable to government as prescribed by the Governmental Accounting Standards Board (GASB), and are audited by the state auditor of Colorado. In addition to the general purpose financial statements, the CAFR includes: combining financial statements, presenting information by fund category; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial, economic, and demographic data about the state.

The funds and entities included in the CAFR are those for which the state is financially accountable based on criteria for defining the financial reporting entity prescribed by GASB. The primary government is the legal entity that comprises the funds and account groups of the state, its departments, agencies, and state funded institutions of higher education. It also includes certain university foundations that have been included with the institution that is financially accountable for the foundation.

The state's elected officials are financially accountable for legally separate entities that qualify as component units. Financial results of the state’s component units are discretely presented in the financial statements. The following entities qualify as component units of the state.

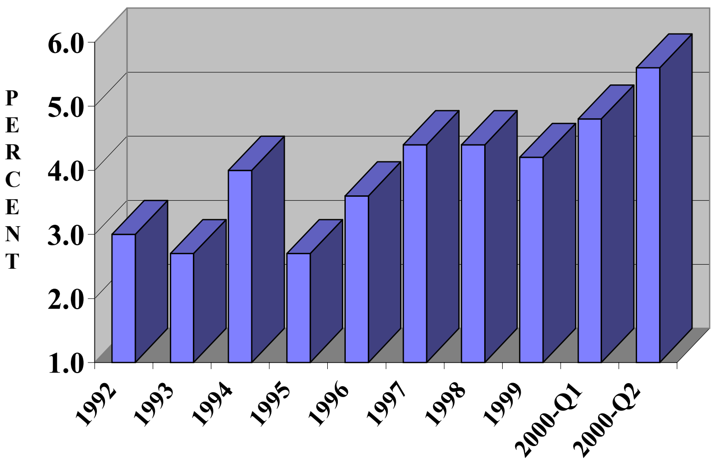
Denver Metropolitan Major League Baseball Stadium District
University of Colorado Hospital Authority
Colorado Water Resources and Power Development Authority
Colorado Uninsurable Health Insurance Plan

Additional information about these component units and other related entities is presented in this report in Note I-A of the footnotes to the general purpose financial statements. Audited financial reports are available from each of these entities.

ECONOMIC CONDITION AND OUTLOOK

In order to carry out budget formulation, the Office of State Planning and Budgeting (OSPB) estimates state revenues. In preparing those revenue estimates, OSPB analyzes the national and state economic conditions. The following synopsis is largely based on OSPB's analysis in the Colorado Economic Perspective that is dated September 20, 2000.

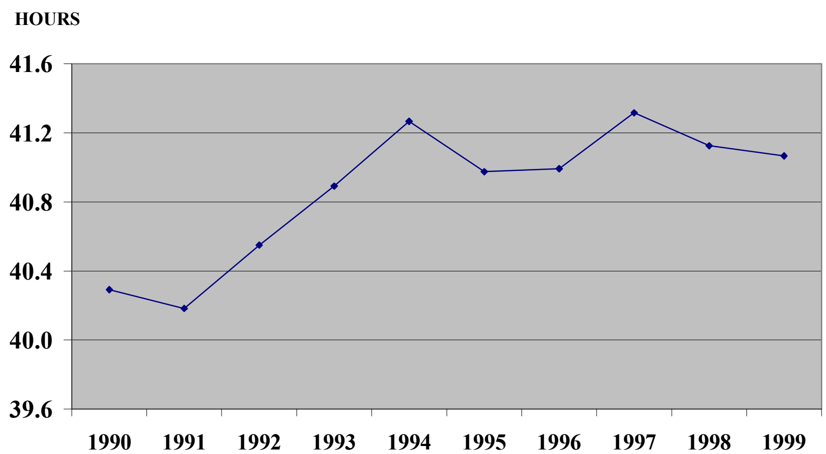
PERCENT CHANGE IN REAL GROSS DOMESTIC PRODUCT



The national economic expansion is on pace to reach an eleventh year, far outlasting the longest previous expansion of the 1960's. The U.S. Department of Commerce reported that real gross domestic product (GDP), the output of goods and services produced in the United States, increased at an annual rate of 5.6 percent in the second quarter of 2000. This followed a first quarter increase in real GDP at an annual rate of 4.8 percent.

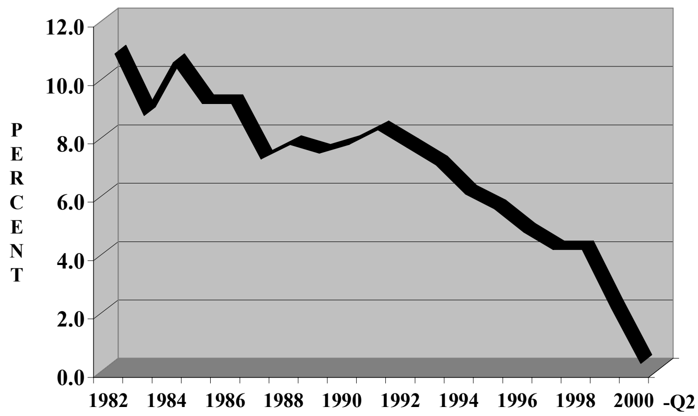
The recent growth in GDP is mainly affected by two factors – productivity and consumer confidence. Productivity increased even faster than GDP at a 5.7 percent pace, which allows for strong growth while keeping price pressures low. Increased use of technology by business underlies the productivity gains. It has allowed businesses to be more efficient and produce more with fewer resources. Technology investment and implementation has also provided business a means to cope with the short labor supply and labor price inflation that would normally attend a national unemployment rate of 3.9 percent. In addition, production workers have maintained a relatively high level of average weekly hours worked during the economic expansion.

AVERAGE WEEKLY HOURS OF PRODUCTION WORKERS



Consumer spending continues to bolster economic activity, and it has grown at an average annual rate of 3.7 percent since 1991. This spending is an indicator of consumer confidence, which has increased over the same period due mainly to the strength of the stock market. Consumers have ignored the recent stock market corrections as consumer confidence increased through the second quarter of 2000. Consumer spending continues to take a toll on personal savings as a percent of disposable personal income. Even though the Bureau of Economic Analysis revised the method of measuring savings rates, this indicator has fallen from 8.3 percent in 1991 to 2.2 percent in 1999. The slide continues as the savings rate dropped to .25 percent in the first six months of 2000. This reduced savings rate increases our national dependence on foreign investment to sustain our economic growth.

PERSONAL SAVINGS AS A PERCENT OF DISPOSABLE PERSONAL INCOME



OSPB has made the following predictions for the national economy in preparing its Colorado economic forecast.

- Inflation-adjusted GDP growth is expected to slow to an annual rate of 4.2 percent through 2005 because the current growth rate is supported by unsustainable levels of business investment and federal spending.
- The economy can sustain growth levels of 3.5 to 3.7 percent without increased inflation because of the efficiency and increased productivity associated with investments in technology.
- The overall inflation rate is expected to rise to 3.2 percent in 2000 due mainly to the increase in oil prices. It will move back toward the 1999 level of 2.2 percent because productivity increases will continue to control wage inflation pressures.
- Employment will grow 2.2 percent in 2000 and trend toward 1.2 percent annual growth in 2005 as a result of the tightening labor market for skilled workers.
- The unemployment rate will increase from 4.0 percent in 2000 to 4.5 percent in 2002.

OSPB hedges these predictions noting that either an inflation-fighting interest-rate increase or a weakening of the dollar could start a series of events that would constrict consumer spending and result in a national recession.

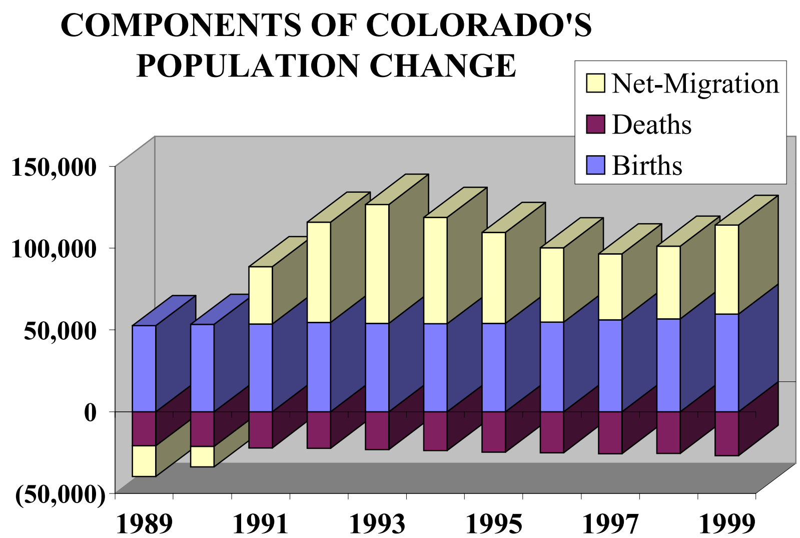
Notwithstanding Colorado's increased diversification and integration with the national economy, its economy has grown much faster than the national average. Colorado was ranked number one among the states in selected economic growth indicators between 1998 and 1999. OSPB cites long-term employment growth and relatively low inflation as the main forces creating Colorado's economic prosperity. The following are some of the signs of the strength of the Colorado economy:

- Nonfarm employment grew 3.6 percent from July 1999 to July 2000.

- Retail sales are up 12.9 percent through July 2000 compared with the first six months of 1999.
- Multi-family construction permits increased 54.8 percent through July 2000 compared with the same period in 1999.
- Unemployment averaged 2.6 percent through July 2000.
- The Denver-Boulder inflation rate was 2.4 and 2.9 percent in 1998 and 1999, respectively.

While these indicators point to a strong economy, inflation increasing to 3.8 percent in the first six months of 2000 and a decline in value of nonresidential construction may signal a future slowing. Although the majority of the inflation increase was related to fuel prices, a generally higher-cost environment is expected to impact Colorado's economy negatively.

OSPB cites a scarcity of labor as the major risk to Colorado's economic expansion. Long-term employment growth has been dependent on two factors of the changing population – births and net migration. Net migration is significant in relation to natural population growth, and it increased again in 1999. However, population increases have been inadequate to prevent the labor scarcity, which is particularly acute in the skilled labor pool. This is significant because sustaining growth and improving per capita income are dependent on the state's ability to continue converting the economy to jobs with higher education and skill requirements.



Construction has been the backbone of Colorado's booming economy during much of the decade. Currently, Colorado is witnessing a mix of infrastructure and private building. In 1999, construction employment increased 10.6 percent at the same time that construction wages were increasing. Multi-family housing permits have increased significantly in 2000. Increases in interest rates and single-family home prices have spurred builders to construct multi-family rental units because first time buyers have been priced out of the housing market. Significant infrastructure borrowing and capital spending by the state will support the construction industry over the next several years.

The scarcity of labor and increases in the cost of business and living have caused OSPB to temper their Colorado economic forecast as follows:

- Nonfarm employment growth will decline from 3.6 percent in 2000 to 2.9 percent in 2001 due to lack of available skilled workers rather than reduced demand for goods.
- Unemployment will increase from 2.8 percent in 2000 to 3.4 percent in 2002.
- Wages and total personal income will increase by 9.6 and 8.9 percent, respectively, in 2000 and approach a growth rate of 7.0 and 6.9 percent, respectively, by 2005.

- Population is expected to increase 2.3 percent in 2000 and slow to a 1.8 percent rate by 2005.
- The Denver-Boulder inflation rate is forecasted to be 3.6 percent in 2000 and then taper off to around 3.0 percent in subsequent years.
- Retail sales are expected to grow 7.9 percent in 2000.

MAJOR GOVERNMENT INITIATIVES

In the 2000 legislative session, the General Assembly enacted several permanent tax reductions to reduce the collection of excess revenues under Article X, Section 20 (TABOR) of the State Constitution. This action followed several similar tax reductions enacted in the 1999 legislative session. The most significant change reduced the income tax rate from 4.75 percent to 4.63 percent, and the Office of State Planning and Budgeting (OSPB) expects this change to reduce revenue by $131.6 million in Fiscal Year 2001-02. The legislature also reduced the sales tax rate from 3.0 percent to 2.9 percent; OSPB expects a $74.7 million impact from this change in Fiscal Year 2001-02. Employers in the state received a 20 percent credit against unemployment insurance taxes that is anticipated to reduce Fiscal Year 2001-02 revenues by $31.9 million. The Legislature passed nine other bills that OSPB estimates will collectively reduce Fiscal Year 2001-02 revenues by $12.7 million. These bills included items such as tax credits to owners of low-income housing and incentives for the clean up and redevelopment of contaminated land.

The Fiscal Year 1999-00 TABOR refund increased 38.5 percent over the prior year to $941.1 million. In the 2000 legislative session, the General Assembly again addressed ways of refunding the excess TABOR revenues by adding thirteen mechanisms to the five established in 1999. As in the case of the original five, the new mechanisms are dependent on the total refund exceeding certain thresholds. These thresholds are significantly below the currently anticipated total refund amounts even after the permanent tax reductions discussed above. Six of the thirteen mechanisms will not have an impact until the Fiscal Year 2000-01 refund is paid in 2002. The remaining seven are estimated to distribute $85.7 million of the current $941.1 million refund. In order of estimated impact those seven mechanisms are:

- Expand the capital gains tax treatment primarily by reducing the holding period from five years to one year ($28.0);
- Provide an income tax credit for the cost of health benefits plans that are not paid by an employer or deducted from Adjusted Gross Income ($22.1);
- Increase the child care tax credit amount and the phase-out thresholds ($22.1);
- Increase the earned income tax credit from 8.5 percent to 10 percent of the federal tax credit ($5.4);
- Provide income tax exempt Individual Development Accounts to fund education, first home purchase, or business capitalization; provide a 25 percent tax credit for charitable contributions of matching funds to the program ($5.0);
- Exempt certain pollution control equipment from state sales and use tax ($2.8);
- For five years, provide an income tax credit equal to the individual tax liability of health care providers living and working in understaffed areas of Colorado ($.3).

The balance of the $941.1 million will be distributed through the previously existing mechanisms of the sales tax refund; the business personal property tax refund; reductions in the taxable amount of interest, dividends, and capital gains; and the earned income tax credit. Even after these off-the-top refunds, the estimated average sales tax refund per adult increased 15.7 percent from $216 to $250.

In November 1999, Colorado voters approved the issuance of $1.7 billion of Transportation Revenue Anticipation Notes (TRANs) to fund the acceleration of specific transportation projects. The Department of Transportation issued $524.36 million of TRANs on June 1, 2000 (See Note IV-B page 75). The department will use future federal transportation revenues and state matching funds to pay the principle and interest on the TRANs. Additional TRANs will be issued as work progresses on the construction projects. In addition, the state continued the diversion of 10% of sales tax receipts from the General Fund to the Highway Fund. During Fiscal Year 1999-00, the state diverted $188.9 million to the Highway Fund.

The State of Colorado participated in a multi-state suit against tobacco companies to recover state expenditures related to smoking illnesses. The General Assembly created a fund in which to deposit proceeds from Colorado's portion of the multi-billion dollar settlement. The Tobacco Litigation Settlement Fund (a Special Revenue Fund) received $67.1 million of settlements and interest earnings in Fiscal Year 1999-00. The Tobacco Litigation Settlement Trust Fund (a Nonexpendable Trust Fund) received $50.9 million from the same sources. None of the funds were expended in Fiscal Year 1999-00, although, the legislature approved several programs that will use portions of the settlement in subsequent fiscal years. One such program is the Read-to-Achieve Program, which provides an intensive literacy program for students in the third grade of elementary school.

The General Assembly enacted a bill to provide a funding mechanism through Fiscal Year 2010-11 for local school construction and renovation. The act provides for an initial appropriation of $5 million with annual increases of $5 million until the annual appropriation equals $20 million. However, these appropriations are made contingent upon there being an $80 million reserve in the general fund after the following general fund obligations are met:

- Constitutional, statutory, and annual appropriations;
- Diversion of ten percent of sales and use tax to the Highway Users Tax Fund;
- Transfers to the state Capital Projects Fund;
- Transfers to the Controlled Maintenance Trust Fund;
- Any excess-revenue refunds required by Article X, Section 20 of the State Constitution;
- Statutory reserve of four percent of annual appropriations.

The act requires the State Board of Education to approve and prioritize local school district projects; the Capital Development Committee is then required to determine the number of prioritized projects to be funded from the remaining available cumulative appropriations. The bill also authorized the state treasurer to make loans to local school districts for approved capital construction projects.

The Colorado Travel and Tourism Authority and the Colorado Student Obligation Bond Authority became state agencies as a result of bills enacted by the legislature in the 2000 session. The Colorado Travel and Tourism Authority was previously reported as a component unit, and the Colorado Student Obligation and Bonding Authority was previously reported as a related party. Both agencies will be reported as state agencies in the Fiscal Year 2000-01 Comprehensive Annual Financial Report.

BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS

The annual budget of the state for ongoing programs, except for federal and custodial funds, is enacted by the General Assembly. New programs are funded for the first time in the enabling legislation and continued through the Long Appropriations Act in future periods. For the most part, appropriations lapse at the end of the fiscal year unless extenuating circumstances prompt the state controller approves an appropriation roll-forward. Capital construction appropriations are normally effective for three years.

The state records the budget in its accounting system along with federal awards and custodial funds of the various departments. Encumbrances are also recorded and result in a reduction of the budgeted spending authority. Encumbrances represent the estimated amount of expenditures that will be incurred when outstanding purchase orders, contracts, or other commitments are fulfilled. Open encumbrances in the General Fund are not reported as a reservation of fund balance unless the related appropriations are approved for roll-forward to the subsequent fiscal year. Fund balance is reserved for open encumbrances that represent legal or contractual obligations in the Capital Projects Fund and the Department of Transportation’s portion of the Special Revenue Fund.

The state's financial records for governmental type funds are accounted for on a modified accrual basis with the revenues recorded when available and measurable, while expenditures are recorded when goods or services are received or a liability is expected to be liquidated from current available resources. The state maintains proprietary and fiduciary fund type accounting records on the full accrual basis. That is, revenues are recorded when earned, and expenses, including depreciation, are recorded when incurred.

In developing the state's accounting system, consideration has been given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. Those controls also assure the reliability of financial records for preparing financial statements and maintaining the accountability for assets.

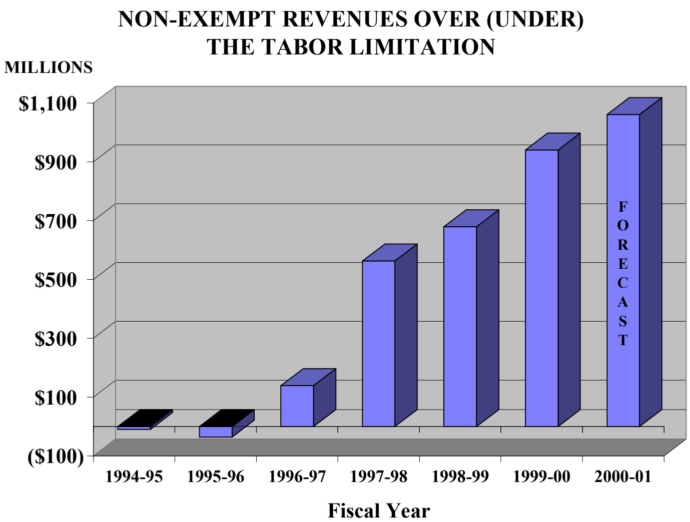
The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework. We believe that the state's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

FINANCIAL OVERVIEW

Fiscal Year 1999-00 is the seventh year of state operations under the TABOR revenue limitations (Article X, Section 20 of the State Constitution). With certain exceptions, the rate of growth of state revenues is limited to the combination of the percentage change in the state’s population and inflation based on the Denver-Boulder CPI-Urban index. The exceptions include federal funds, gifts and donations, sales of property, refunds, damage recoveries, and transfers.

Revenues collected in excess of the limitation must be returned to the citizens unless a vote at the annual election in November allows the state to retain the surplus. TABOR also limits the General

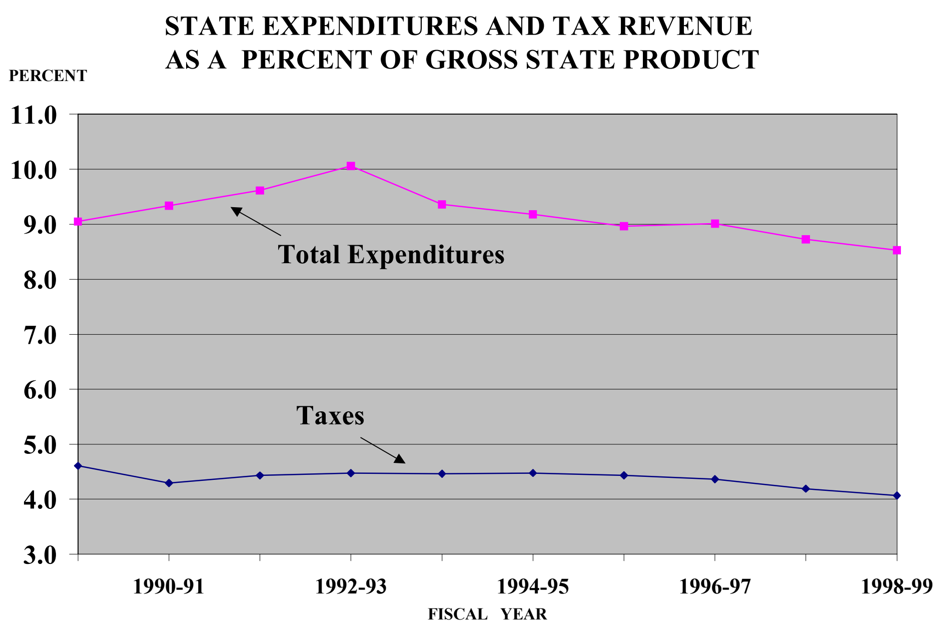
Assembly's ability to raise taxes and borrow money. With the exception of a declared emergency, taxes can only be raised by a vote of the people at the annual election. Multiple year borrowings can only be undertaken after approval by a vote of the people at the annual election.



In the first three years of operation under TABOR, the state did not exceed the revenue limitation. In Fiscal Years 1999-00, 1998-99, 1997-98, and 1996-97, state revenues exceeded the TABOR limitation by $941.1, $679.6, $563.2, and $139.0 million, respectively. The state recorded a liability in the General Fund at June 30 for these amounts in each fiscal year. See Note II-D – Tax, Spending, and Debt Limitations in the notes to the financial statements for additional details.

Notwithstanding the tax reductions discussed above, the Office of State Planning and Budgeting forecasts revenues greater than the TABOR amendment allows. It should be noted that the Fiscal Year 2000-01 TABOR revenue limitation is 6.5 percent below the pre-refund actual revenues for Fiscal Year 1999-00.

TABOR controls state revenues by limiting their growth to the sum of inflation plus population increases. If, however, the state's economy grows at a rate above the percentage change in inflation and population then state revenues become a smaller percentage of Gross State Product (GSP). The chart at left shows the trend of state expenditures and tax revenues as a portion of GSP. This chart demonstrates several important points:



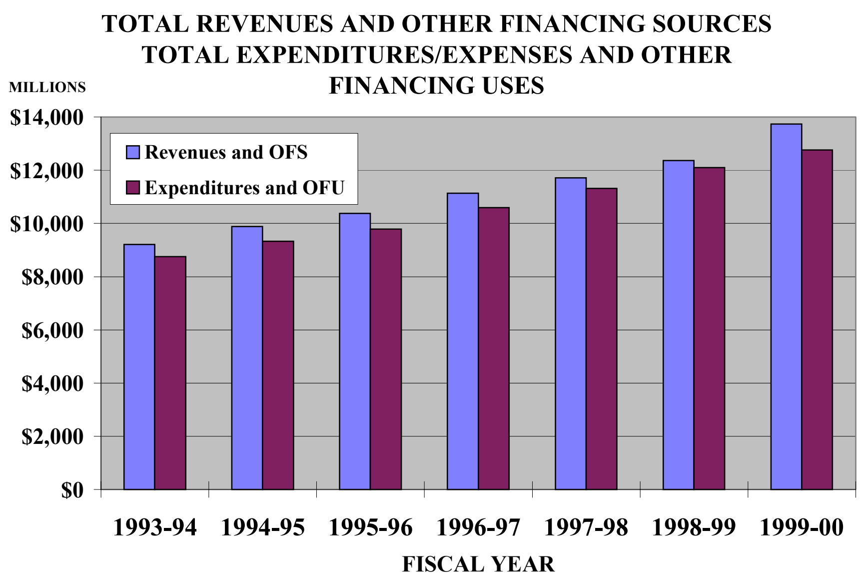
- State expenditures as a portion of GSP expand and contract even when tax revenues remain stable.
- Over the period covered by the graph, state tax revenues have remained between 4.06 and 4.61 percent of GSP. Federal revenues, which are primarily grants, and cash revenues, which are primarily exchanges for goods or services, funded most of the variation in state expenditures.

- The increase in total expenditure percentage between 1990 and 1993 was primarily the result of healthcare inflation under the Medicaid mandate and distributions to school districts to relieve local property tax burdens. The former was funded partially by federal revenue and partially by general-purpose tax revenue, while the latter was funded primarily by general-purpose tax revenues. Neither required a tax increase.
- General tax revenue at 4.06 percent of GSP is at its lowest level in the period covered by the chart.

It is anticipated that state tax revenues will continue to decline relative to the GSP as long as the state's economy continues its expansion. If the economy were to contract abruptly, state revenues could rise as a percentage of the GSP in the short term. However, without a tax increase or retention of the TABOR surplus (both require a vote of the people), the long-term trend would remain downward.

The current combined balance sheet for the state's primary government shows total assets of $15,118 million and liabilities of $4,678 million. Under current accounting principles, this difference of $10,440 million is the financial equity that the citizens of Colorado have in their state government. The state's current accounting practices do not include the recording of infrastructure on the state's books. Thus, the recorded equity is exclusive of such assets as highways, bridges, and parks. Similarly, there is no recording of the estimated cost to maintain those assets.

Total revenues and other financing sources for the primary government, excluding operating transfers-in and excess TABOR revenues, were $13,738 million and $12,355 million in Fiscal Years 1999-00 and 1998-99, respectively. In Fiscal Year 1999-00, the amount shown includes bond proceeds of $524.4 million from Transportation Revenue Anticipation Notes (TRANs) issued by the Department of Transportation. Total expenditures/expenses and financing uses, excluding operating transfers-out were $12,762 million and $12,092 million for each of the same periods.



For Fiscal Year 1999-00, various fund equity accounts changed from the beginning of the fiscal year due to differences between revenues, other financing sources, transfers-in, and expenditures, other financing uses, and transfers-out. The equity of the governmental fund types increased by $438.0 million primarily due to a $88.6 million decline in the General Fund, a $696.4 million increase in the Special Revenue Fund, and a $170.8 million decrease in the Capital Projects Fund. The General Fund decline was related to a $261.5 million increase in the TABOR refund. The increase in the Special Revenue Fund was primarily related to the issuance of the TRANs mentioned above and increases in tax, license, permits, and fines revenue of the Highway Users Tax Fund. The Special Revenue Funds also increased by $67 million due to receipts of the Tobacco Litigation Settlement Fund. The decrease in the Capital Projects Fund was the result of project expenditures exceeding transfers-in from the General Fund. The combined fund equities of the colleges and universities increased by $404.8 million primarily related to increases in capital assets recorded in the Plant Funds, and increased endowments. In addition, Higher Education tuition and fees and transfers from the state exceeded increases in spending. The Trust Fund equity increased by $291.0 million. These funds are not available for state programs, and several factors contributed to the increase including:

- $120 million increase in investments held for the Colorado Compensation Insurance Authority in an Investment Trust Fund,
- $51 million of receipts of the new Tobacco Litigation Settlement Trust Fund,
- $38 million increase in the Deferred Compensation Plan,
- $68 million increase in the Unemployment Insurance Trust Fund.

GENERAL FUND ACTIVITIES

The General Fund is the focal point in determining the state's financial position. This fund accounts for all revenues and expenditures that are not required by law to be accounted for in other funds. Revenues of the General Fund consist of two broad categories, general-purpose revenues and augmenting revenues. General-purpose revenues are taxes, fines, and other similar sources that are raised without regard to how they will be spent. Augmenting revenues consist of federal funds, transfers-in, cash fees and charges, or specific user taxes. Augmenting revenues are usually restricted as to how they can be spent.

In the CAFR, all statements depicting the General Fund in the General Purpose Financial Statements Section include general purpose and augmenting revenues and the related expenditures. The *Schedule of Revenues, Expenditures, and Changes in General Fund Surplus – Budget and Actual,* presented in the Combining Financial Statements and Schedules Section, includes only the general-purpose revenues and expenditures supported by those revenues. Therefore, we use the General Fund Surplus Schedule to discuss budget variances (see page 91).

The revised budget frequently varies from the original budget for several reasons. The departments submit their request for original budget about eight months in advance of the fiscal year. Therefore, conditions may have changed during the time the legislature evaluates and finalizes the original budget. In addition, mandated programs may have overruns beyond the department's control. When such overruns are anticipated, the legislature may enact a supplemental bill increasing the department's budget. Supplemental bills may also reduce a department's budget. In Fiscal Year 1999-00, the following significant variances occurred between original and revised general fund budget.

- The Department of Corrections revised budget was $4.9 million more than the original budget due to a supplemental appropriation to pay for state prisoners temporarily held in local jails because state facilities were not available.
- The Governor's Office revised budget exceeded the original budget by $2.3 million due to a supplemental appropriations for the replacement of embedded computer chips in state

electronic systems. In addition, the Governor's Office budget was increased to continue funding of the New Century Colorado program which is charged with finding ways to improve the efficiency and effectiveness of state government.

- The Department of Health Care Policy and Financing revised budget exceeded the original budget by $24.3 million due to a $20.8 million legislative supplemental and $4.5 million budget transfer from the Department of Human Services for Medicaid matching funds. The Medicaid program expenditures are mandated for the receipt of related federal funds.
- The Department of Human Services original budget exceeded the revised budget by $7.8 million primarily due to the above mentioned $4.6 million transfer to the Department of Health Care Policy and Financing for Medicaid matching funds. The department's original budget was also reduced by a legislative supplemental reduction of $2.9 million.

In Fiscal Year 1999-00, the following significant variances occurred between the revised General Fund budget and the actual expenditures:

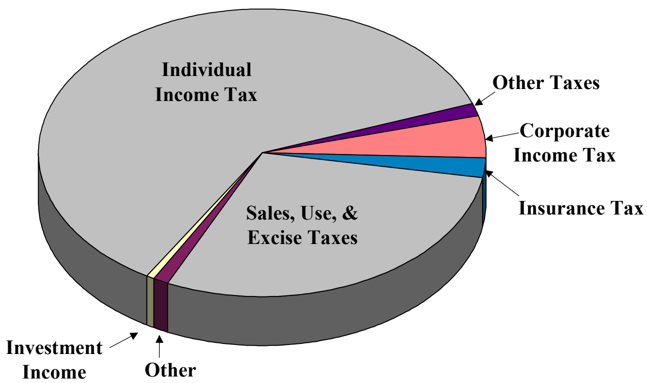
- The Department of Health Care Policy and Financing general fund expenditures related to Medicaid costs exceeded the revised budget by $23.4 million. In the 2000 legislative session, the legislature provided funds to cover a portion of this overexpenditure by retroactively appropriating $7.4 million in the Fiscal Year 1998-99 budget. This appropriation was the amount by which the expenditures of the program were under-estimated in Fiscal Year 1998-99. The balance of the overexpenditure occurred because Medicaid is an entitlement program, and the department is required to pay for the services provided to qualified clients. Because of this, the department is statutorily allowed unlimited Medicaid overexpenditures.
- The Department of Human Services revised budget exceeded the related general fund expenditures by $2.2 million. This variance is the aggregation of multiple budget line items that were underspent – the largest of which was $751,045 in the county contingency line item. This line item is budgeted for unanticipated costs in county social services programs that the department funds.
- The Judicial Branch revised budget exceeded related expenditures by $2.7 million. Approximately $1.0 million of this reversion relates to unexpended amounts originally appropriated for furnishings at county courthouses. The balance of the reversion was spread over many appropriated lines – none of which was individually significant.
- The Department of Revenue revised budget exceeded related expenditures by $2.3 million. The largest single portion of this variance ($.63 million) occurred because the anticipated distributions of cigarette taxes to local taxing districts were lower than expected. In addition, a program to automate driver's license documents was delayed. Several programs in the department experienced lower than expected costs because the tight job market and early retirement incentives cause an unusually high number of employee positions to remain unfilled.

In Fiscal Year 1997-98, the state began allocating 10 percent of the General Fund sales and use tax revenues to the Highway Users Tax Fund (HUTF). These revenues, which amounted to $188.9

million, $170.4 million, and $154.6 million in Fiscal Years 1999-00, 1998-99, and 1997-98 respectively, are no longer recorded as general-purpose revenues.

General-purpose revenues for Fiscal Years 1999-00 and 1998-99 were $6,115 million and $5,623 million, respectively, on the budgetary basis. Sales, use and excise taxes increased by $147.0 million or 9.0 percent, and individual income taxes increased by $391.5 million or 11.8 percent. These increases demonstrate the continued strength of the Colorado economy and related increases in personal income. Other Revenues decreased by $59.7 million or 45.0 percent due to a change in the state's Medicaid Disproportionate Share Hospital program. Formerly, the hospitals provided revenue that the state used as a match for federal Medicaid expenditures; however, that revenue is no longer received under the change to the program.

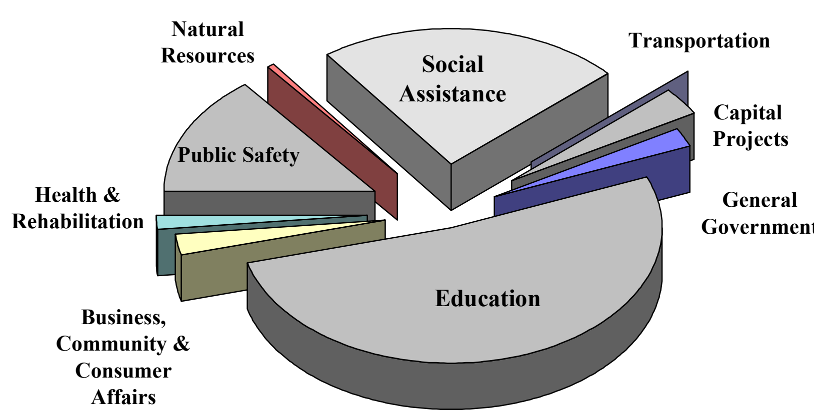
GENERAL PURPOSE REVENUES BY SOURCE



On the budgetary basis and excluding the TABOR refund, total expenditures and transfers-out funded from general-purpose revenues during Fiscal Years 1999-00 and 1998-99 were $5,318.0 million and $5,279.1 million, respectively (see page 91). The total annual increase in general funded expenditures is limited to six percent over the previous year with certain adjustments. The primary adjustments are for changes in federal mandates and lawsuits against the state. This limitation is controlled through the legislative budget process.

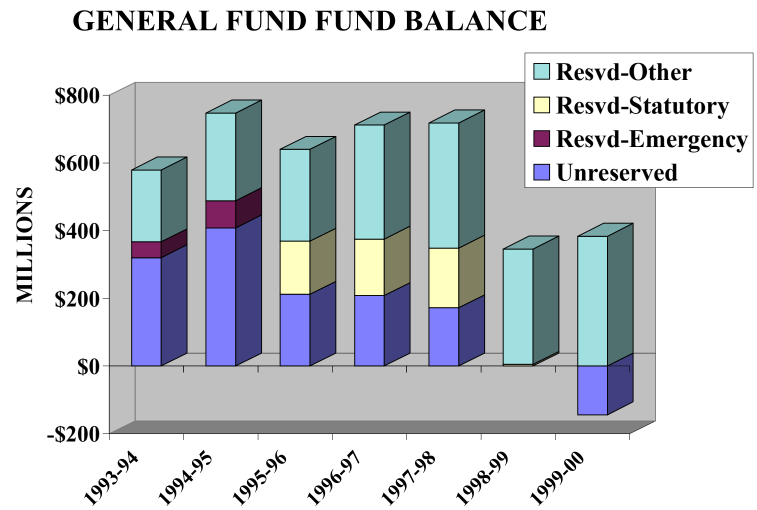
The Departments of Education, Health Care Policy and Financing, Higher Education, and Human Services accounted for approximately 79.4 percent of all Fiscal Year 1999-00 general funded expenditures. Of the departments with substantial general funded expenditures, the Department of Local Affairs had the largest annual percentage increase over the previous year at 26 percent. This increase resulted from an appropriation and related expenditures of approximately $5 million for the promotion of tourism in Colorado. The Department of Local Affairs also increased its spending by $1.3 million on the Colorado Affordable Housing Construction Grants and Loans program.

EXPENDITURES BY FUNCTION FROM GENERAL PURPOSE REVENUES



The Department of Corrections and the Department of Public Safety also had significant increases of 12.7 percent each. In the Department of Corrections, the increase represents the cost of additional staffing and operations at new prisons. In the Department of Public Safety, two programs had significant variances. The Colorado Bureau of Investigation Instacheck Program, which provides background checks on individuals purchasing firearms, was reinstated in Fiscal Year 1999-00 and funded from general-purpose revenues. The Community Corrections Program, which provides an alternative to incarceration in a state prison for lower risk offenders, had higher average daily population in Fiscal Year 1999-00 than in previous years. Consequently, the costs associated with this program were higher.

The "Unreserved – Undesignated" title, in the fund equity section of the General Fund on the *Combined Balance Sheet – All Fund Types and Account Groups*, normally represents the accumulated unexpended net general-purpose revenues. For the current fiscal year, the amount shown is a negative $143.9 million. This deficit is primarily the result of the $261.5 million increase in the TABOR refund, which for GAAP purposes is recognized in the year the excess revenues are collected or accrued. The cumulative unexpended net augmenting revenues are represented as "Reserved for Other Specific Purposes." Augmenting revenues of the General Fund were $2,524 million and $2,234 million in Fiscal Year 1999-00 and 1998-99, respectively. Federal grants and contracts made up 86.4 percent and 87.1 percent of this amount in each respective fiscal year. The remainder is cash funds, which consist of revenues of specific programs that are statutorily restricted.



During Fiscal Years 1993-94 and 1994-95 a portion of the General Fund fund balance was reserved for emergencies as required by Article X, Section 20 (TABOR) of the State Constitution. Beginning with Fiscal Year 1995-96, a portion of the fund balance of the Controlled Maintenance Trust Fund is designated by the legislature as the TABOR emergency reserve.

Beginning in Fiscal Year 1995-96, the state controller reserved an amount equal to the statutorily required four percent of General Fund appropriation. Before that, the four-percent reserve was determined during the appropriation process but was not formally recognized in the financial statements. In Fiscal Year 1998-99, the required reserve was $200.37 million; however, no funds were available for this reserve on the generally accepted accounting principle basis. Legal compliance was achieved on the budgetary basis because the Fiscal Year 1999-00 TABOR refund of $941.13 million will not be recognized until it is paid in Fiscal Year 2000-01.

PROPRIETARY OPERATIONS

Proprietary type funds are accounted for using the full accrual basis of accounting, as would a private business. Their operations have many of the attributes of a business in that their revenue relates to the provision of goods or services to the state or to the public. Capital investments of these operations are recorded within the fund and depreciation is recorded using methods similar to private enterprise. Proprietary funds consist of enterprise funds that provide services to the citizens of the state, and internal service funds that provide services to the state government.

The Telecommunications Fund, an internal service fund, received $856,912 of fixed assets funded by the Capital Construction Fund. A portion of the fixed assets ($552,131) were transferred but not recorded in a prior year, and therefore, the amount is shown as a prior period adjustment on the *Statement of Revenues, Expenses, and Changes in Fund Equity – All Proprietary Fund Types and Similar Trust Funds.*

Total fund equity for the proprietary funds at June 30, 2000 and June 30, 1999, was $115.5 million and $118.0 million, respectively – a decrease of $2.5 million. Operating revenues for the proprietary operations were $690.0 million for Fiscal Year 1999-00 and $701.4 million for Fiscal Year 1998-99. Operating expenses were $602.5 million and $609.5 million, respectively. During Fiscal Year 1999-00, the major transfers from the Lottery Fund were $35.8 million to the Conservation Trust Fund and $8.9 million to the Wildlife Fund. In addition, the Lottery Fund distributed $43.5 million of net proceeds to the Great Outdoors Colorado Trust Fund, a constitutionally created public authority.

DEBT ADMINISTRATION

The State Constitution prohibits the state from incurring any general obligation debt. However, the state issues revenue anticipation notes to meet short-term cash needs and certificates of participation under a master lease agreement to finance some capital projects. In addition, many higher education institutions have issued bonds and notes with revenues pledged from specific user payments to retire these bonds and notes. On June 1, 2000, The Colorado Department of Transportation issued Transportation Revenue Anticipation Notes, Series 2000 (TRANs) in the amount of $524.4 million. The TRANs are payable solely from certain federal and state funds annually allocated by the State Transportation Commission. Before the November 1999 vote, the Colorado Supreme Court determined that the TRANs do not constitute general obligation debt of the state. Additional information is provided in the footnotes to the general-purpose financial statements and the statistical section of this report.

RISK MANAGEMENT

The state self-insures its agencies, officials, and employees against the risk of loss related to general liability, motor vehicle liability, workers' compensation, and medical claims. The state uses the General Fund and the General Long-Term Debt Account Group to account for the risk management function including operations and all claims or judgments except employee medical claims. (See Notes I-E, IV-C, and IV-E to the General Purpose Financial Statements). Medical claims for officials and employees are managed through the State Employees and Officials Insurance Fund, an internal service fund. Property claims are not self-insured, as the state has purchased insurance. The Regents of the University of Colorado are self-insured for workers' compensation, auto, general, and property liability. (See Note IV-E to the General Purpose Financial Statements.)

CASH MANAGEMENT

Statutes permit the state treasurer to invest cash not immediately needed to pay obligations of the state. These investments may consist of obligations of the United States, commercial paper of prime quality, repurchase agreements, bank acceptance agreements, and other investment instruments. The state treasurer also invests the funds of the Colorado Water Resources and Power Development Authority, a component unit, and the Great Outdoors Colorado Trust Fund. At June 30, 2000, the state treasurer held the following investments at fair value:

Investment Type	Amount in Millions
United States Treasury and Agencies	$ 1,690.6
Asset Backed Securities	834.2
Corporate Bonds	801.9
Commercial Paper	417.3
Mortgages	381.6
Bankers' Acceptance	21.8
Total	$ 4,147.4

Included above is $742.4 million belonging to the Colorado Compensation Insurance Authority that the state treasurer maintains in a separate investment trust fund. The financial statements of that fund are included in this report.

INDEPENDENT AUDIT

The audit of the General Purpose Financial Statements was performed by the state auditor. The opinion of the auditor is on page 28 of this report preceding the financial statements. Besides an audit of the statewide financial statements, the auditor will from time to time audit the financial statements and operations of various departments and institutions within state government.

In 1996, the United States Congress amended the Single Audit Act of 1984. The amended act clarifies the state's and the auditor's responsibility for ensuring that federal moneys are used and accounted for properly. Under the requirements of this act, transactions of major federal programs are tested. The state prepares a Schedule of Expenditures of Federal Awards for inclusion in the state auditor's Statewide Single Audit Report. The state auditor issues reports on the schedule, the financial statements, internal controls, and compliance with the requirements of federal assistance programs.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Colorado for its comprehensive annual financial report for the fiscal year ended June 30, 1999. This was the third consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

In conclusion, I thank my staff and the staffs of all the state departments and institutions whose time and dedication have made this report possible. I reaffirm our commitment to maintaining the highest standards of accountability in financial reporting.

Sincerely,

Arthur L. Barnhart

Arthur L. Barnhart
State Controller

Certificate of Achievement for Excellence in Financial Reporting

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State of Colorado

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1999

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GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Anne Spray Kinney

President

Jeffrey L. Esser

Executive Director

PRINCIPAL ORGANIZATIONS AND KEY OFFICIALS